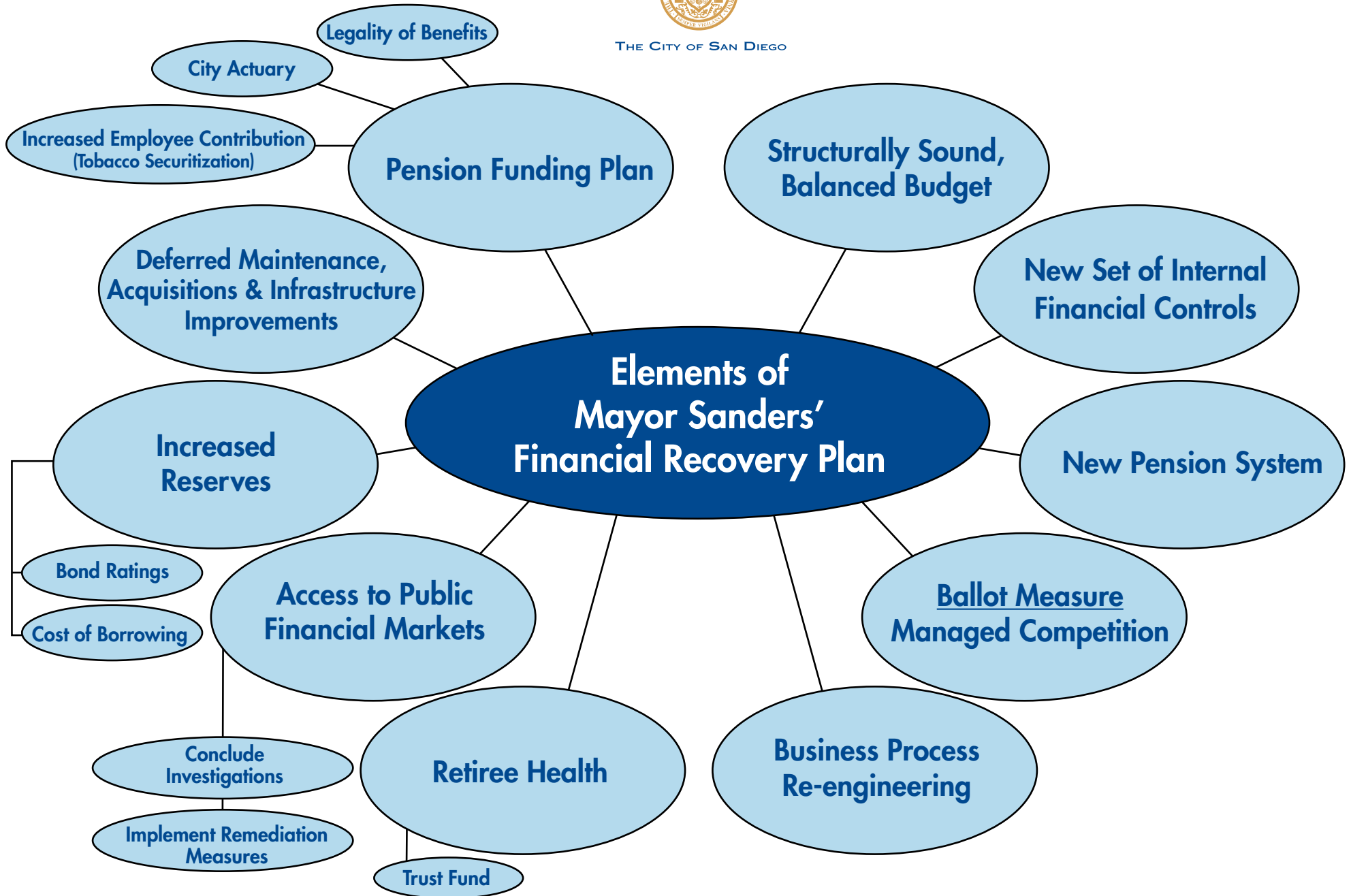


3 YEAR PROCESS OF FUNDAMENTAL CHANGE



THE CITY OF SAN DIEGO





FOR IMMEDIATE RELEASE

April 10, 2006

FACT SHEET

SANDERS ANNOUNCES REFORMIST & COMPREHENSIVE FINANCIAL RECOVERY PLAN FOR CITY

*10 Elements Address Chronic City Problems,
Will Bring About Fundamental Change*

By any definition, San Diego City government is in the middle of a fiscal and managerial crisis. Chronic issues have been unaddressed for years. The services and infrastructure upon which our citizens depend require immediate attention.

Mayor Jerry Sanders today announced the City's first ***Financial Recovery Plan***. Unlike the disparate and disjointed initiatives launched in the past, the Mayor is proposing a holistic and comprehensive solution that will serve as a virtual roadmap for the City to follow over the next three years. Most, if not all, of the 10 elements in the Mayor's Plan address chronic City problems that have gone largely ignored by past administrations. Virtually all of the problems addressed come with lengthy financial, legal and administrative histories. Mayor Sanders has begun the hard work of finding solutions for these chronic problems.

Here are the 10 elements of the Mayor's plan for fundamental change at City Hall:

Structurally Sound, Balanced Budget

For the first time ever, San Diegans will have a budget that they can understand.

Mayor Sanders' reformist budget includes a number of structural changes that contrast positively with the past. Elements include:

- **True revenues and expenses will be reflected in the City budget.** In the past, city managers have shaved projected revenues so that they couldn't be spent by the City Council at budget time, and purposely underestimated expenses to balance that budget. Those practices stop this year.

General Fund Revenues:

REVENUE SOURCE	FY06 BUDGET	FY07 BUDGET
Property Tax	\$290.4 million	\$344.2 million
Sales Tax	\$144.1 million	\$234.9 million
T.O.T.	\$128.5 million	\$139.1 million
Other	\$301.0 million	\$267.8 million
Pension Obligation Bonds	\$0	\$374 million
TOTAL ESTIMATE (AS OF 4/9/06) MAY BE FINE-TUNED FOR 4/14	\$864 MILLION	\$1,360 MILLION

- Police and Fire Department overtime budgets will be fully funded.
- 270 General Fund Phantom or “supplemental” positions (as they are known in City parlance) will be incorporated into the budget. This will cost \$33.7 million.
- Funding deferred maintenance.
- Funding reserves.
- A requirement that enterprise and special funds be audited every three years to ensure all fees paid into those funds are used for the proper purpose, including personnel.
- And a reduction in the size of the annual budget report down to one volume so that the public can understand the document.

Pension Funding Plan

Over the course of the next three fiscal years (FY06, FY07 and FY08), the Mayor is proposing to infuse the Retirement System with **\$856.1 million in cash** in order to reduce the \$1.4 billion deficit.

FISCAL YEAR	FUNDING RECOMMENDATION	AMOUNT		
FY06	Tobacco Securitization	\$100 million		
	Remainder of Employee Pickup	\$7 million		
	FY06 Sub-Total	\$107 million	\$107 million	68% funded
FY07	Normal Costs	\$85.8 million		
	Pension Obligation Bonds	\$300 million		
	Employee Leverage POB	\$74 million		
	FY07 Sub-Total	\$459.8 million	\$459.8 million	79.15% funded
FY08	Normal Costs (estimated)	\$89.3 million		
	Pension Obligation Bonds	\$200 million		
	FY08 Sub-Total	\$289.3 million	\$289.3 million	83.72% funded
	TOTAL	\$856.1 million	\$856.1 million	

The Mayor will establish 85% as the funding ratio goal for his administration.

Mayor Sanders believes that the City’s true pension obligation, including the **Actuarially Required Contribution (ARC)** should be fully disclosed to the citizens of this community. Because the City has ultimate responsibility for the numbers that appear in its financial

statements, **the City will hire its own outside pension actuary to ensure that the ARC listed on the City's financial statements is in accordance with GASB principles.**

In addition, Mayor Sanders believes that it is critical that the taxpayers have a judicial determination on the legality of the pension benefits that came as a result of MPI and MPII.

Deferred Maintenance & Infrastructure Improvements

The Mayor will dedicate at least \$20 million to deferred maintenance in his FY07 budget, more than other budgets in recent memory. In addition, the deferred maintenance list is being entirely updated so that a more precise number can be known and considered for future years. These are two important starts to addressing a problem that has languished for years.

Increased Reserves

Over the course of the next two fiscal years, **the Mayor intends to dedicate at least \$32.3 million to the City's reserves, bringing reserves from \$33.4 million currently to \$65.8 million in FY08.**

This will increase reserves as a percentage of the budget from 3.73% currently to 5.85% in FY07 and 6.62% in FY08.

Increased reserves will decrease the City's cost of borrowing once we are able to access the public markets and be well received by bond rating firms.

Access to Public Financial Markets

Re-accessing the public markets later this calendar year is one of the Mayor's top priorities. The City has an enormous back-up of projects that must get underway soon.

In order to achieve this end, the Mayor is shepherding the investigations toward their conclusion. The audits will soon follow. The City will then once again have access to capital at lower rates than those offered by private placements.

The Mayor also intends to institute a wide and comprehensive array of remediation measures as part of a new set of internal financial controls.

Retiree Healthcare

Almost one month ago, Towers Perrin estimated the actuarial liability for Retiree Healthcare to be \$985 million this year. Cities and government agencies across the country face similar numbers. Although the City will make a "pay as you go" contribution of \$21 million this year, **the Mayor will include \$5 million as part of his FY07 budget to establish an interest-bearing special fund. This represents a start toward the establishment of a funded trust fund.**

The establishment of this fund does not convey a vested entitlement to post retiree healthcare benefits. Over the course of the next year, the administration will work with the City Attorney to determine the legal parameters for healthcare vesting.

Business Process Re-engineering

Over the course of the next three years, every City process and department will be professionally and thoughtfully examined with the express purpose of reducing costs and creating managerial efficiency. Instead of politically inspired or knee jerk solutions, the City is employing Business Process Re-engineering (BPR).

In order to budget most conservatively, there are no savings budgeted as a result of BPR. However, **the City expects to eliminate 500 positions in FY07 as a result of BPR.** (In addition, the Mayor has ended the practice of supplemental positions.)

Managed Competition

San Diego City voters will consider the Mayor's historic managed competition proposal in November. **The managed competition program will be part of the Mayor's holistic proposal to financially reform City government and bring managerial efficiency to the City's bureaucratic practices.**

Managed Competition is a formal mechanism whereby public employees compete with the private sector to perform City services. The goals of managed competition include:

- Improving services while lowering costs;
- Creating a return-on-investment for the taxpayers;
- Reinvesting savings into high priority programs.

As a result of the BPR process, the Mayor expects that City employees will be able to provide services better, cheaper and faster and thus win the competitions.

New Pension System for New Employees

As a percentage of pay, the current benefits currently exceed 50%. This is clearly unsustainable. **The Mayor intends to use FY07 as a planning year to conceive of a new pension plan for new employees.**

New Set of Internal Financial Controls

Mayor Sanders will bring significant reforms to the way in which the City handles its internal financial controls. **The Mayor has directed City CFO Jay Goldstone to examine all controls with an eye toward instituting "best practices," some of which will come as a result of remediation measures.**